

**ORIGINAL**

**OFFICIAL FILE**  
**ILLINOIS COMMERCE COMMISSION**

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

ILLINOIS  
COMMERCE COMMISSION

2002 DEC 31 P 1:18

CHIEF CLERK'S OFFICE

**ILLINOIS POWER COMPANY**

Request pursuant to Section 6-102(d) of the Public  
Utilities Act for an order authorizing (i) the issuance  
of up to \$200,000,000 aggregate principal amount  
of Mortgage Bonds in connection with a proposed  
Refunding, Redeeming and /or Refinancing of  
Outstanding Bonds and (ii) the issuance of up to  
\$250,000,000 aggregate principal amount of  
Mortgage Bonds for the purpose of Refunding  
and/or redeeming Outstanding Bonds.

:  
:  
:  
:  
:  
:  
:  
:  
:  
:  
:  
:  
:

Docket No. 02-0851

**STAFF'S ANSWER TO ILLINOIS POWER COMPANY'S  
AMENDED INFORMATIONAL STATEMENT**

Now comes the Staff of the Illinois Commerce Commission ("Staff") in response to Illinois Power Company's ("IP" or "Company") Informational Statement. On December 20, 2002, IP filed its Informational Statement in this Docket pursuant to Rule 200.900 of the Illinois Commerce Commission's ("Commission") rules of practice, 83 Ill. Admin. Code 200.900, and Section 10-113 of the Public Utilities Act, 220 ILCS 5/6-102 *et. seq.* ("Act"). In its Informational Statement, IP requested that the Commission enter an Order authorizing IP to (i) issue up to \$200,000,000 aggregate principal amount of Mortgage Bonds ("Bonds") for the purpose of refunding, redeeming or refinancing outstanding indebtedness and (ii) issue up to \$250,000,000 aggregate principal amount of Mortgage Bonds for the purpose of refunding or redeeming outstanding privately placed First Mortgage Bonds ("Exchange Bonds").

Staff has reviewed IP's Informational Statement and Section 6-108 of the Act and states as follows:

1. The Informational Statement explains that on December 20, 2002 IP issued \$550,000,000 in a private placement bonds to qualified institutional buyers pursuant to U.S. Securities and Exchange Commission Rule 144A ("Private Bonds"). \$400,000,000 of the \$550,000,000 in Private Bonds was issued pursuant to authority the Commission granted in Docket No. 02-0403; IP placed the proceeds of the remaining \$150,000,000 in Private Bonds in escrow pending a Commission order authorizing that portion of the issuance. ("Delayed Delivery Private Bonds"). The \$150,000,000 in Delayed Delivery Private Bonds is part of the \$200,000,000 in Bonds, which IP is seeking to issue pursuant to authority from the Commission in this proceeding.
2. IP may seek to issue up to \$50,000,000 of the \$200,000,000 in Bonds in a second series at a later date.
3. Of the \$200,000,000 in Bonds, \$190,000,000 will be used to redeem \$100,000,000 in 6.5% Mortgage Bonds maturing August 1, 2003 and \$90,000,000 of 6% Mortgage Bonds maturing September 15, 2003. The remaining \$10,000,000 in Bonds, if issued, would be used to replenish IP's treasury for moneys expended to pay the costs of these two issuances. (Confirm with IP.) Despite the higher cost of the Bonds in comparison to the 6.5% and 6% Mortgage Bonds, Staff understands that IP deemed it prudent to obtain the funds IP needs to redeem the maturing 2003 Mortgage Bonds while demand for the Company's Bonds remains strong rather than risk that the continuing financial difficulties of its parent company, Dynegy, Inc. ("Dynegy") would lead to weak demand for IP's Mortgage Bonds.
4. The Informational Statement further explains that the \$250,000,000 in Exchange Bonds for which IP is requesting authorization from the Commission to issue in this proceeding, along with \$300,000,000 in Exchange Bonds the Commission previously authorized in Docket No. 02-0698, will be issued to replace

\$550,000,000 in Private Bonds issued on December 20, 2002. Replacing the Private Bonds with Exchange Bonds will permit the qualified institutional buyers to resell the Exchange Bonds to the public, which enhances the Exchange Bonds' liquidity and lowers their cost.

5. The Company has told Staff the Company will issue up to two series of Bonds and up to two series of Exchange Bonds. Thus, the Company will need four identification numbers pursuant to Section 6-101 of the Act (220 ILCS 5/6-101/
6. A summary of IP's debt issuance activity, as approved in Docket Nos. 02-0403 and 02-0698 and proposed in this proceeding, is as follows:

Docket Number	Type	Amount	Purpose	Issuance Date
02-0403	Private Bonds	\$400 million	Refund or Refinance \$396 million of indebtedness	12/20/2002
02-0851	Delayed Delivery Private Bonds	\$150 million	Refund or Refinance \$150 million of indebtedness	12/20/2002
02-0851	Mortgage Bonds (Type not yet determined)	\$50 million	Refund or Refinance \$50 million of indebtedness and pay associated costs	2003
02-0698	Exchange Bonds	\$300 million	Refund \$300 million in Private Bonds issued 12/20/02	Not specified
02-0851	Exchange Bonds	\$250 million	Refund \$250 million of Private Bonds issued 12/20/02	After 1/8/2003

7. The Company's proposal is subject to Section 6-101 of the Act, which requires the Commission to provide proper identification numbers on the proposed Bonds and Exchange Bonds when issued.
8. The Company's proposal is subject to Section 6-102(a) of the Act, which requires a Commission Order authorizing IP's proposed issuance of the Bonds and Exchange Bonds. The Order must also state the amount of the proceeds and

purposes to which they are to be applied, and that such applications are reasonably required.

9. The Company's proposal to issue \$200,000,000 in Bonds and \$250,000,000 in Exchange Bonds is not subject to Section 6-102(b) of the Act since IP will use 90% or more of the proceeds for purposes of refunding, redeeming or refinancing outstanding indebtedness.
10. The Company's proposal to issue \$50,000,000 in Bonds and \$250,000,000 in Exchange Bonds is subject to Section 6-102(d) of the Act, which requires the Informational Statement filed by IP and a Commission Order in conformance with Section 6-102(a) of the Act.
11. The Company's request for authority to issue \$150,000,000 in Delayed Delivery Bonds issued on December 20, 2002 is not in conformance with Section 6-102(d) of the Act since IP's Informational Statement was not filed with the Commission at least 15 days **before** the date of issuance. Nevertheless, Staff recommends approval of the \$150,000,000 in Delayed Delivery Bonds pursuant to Section 6-102(a) of the Act. The Company's Information Statement describes the amount of the proposed issuance, the purpose to which the proceeds will be applied, and satisfactorily demonstrates that the issuance is reasonably required for the purpose of *redeeming, refunding or refinancing* outstanding indebtedness.
12. The Company's proposal is subject to Section 6-108 since \$10,000,000 of the \$200,000,000 of proceeds of the Bonds will not be issued for the purpose of *refunding securities issued with the authorization of the Commission*. Subject to Section 6-108 of the Act, the Company shall pay an amount equal to 20 cents for every \$100 of the \$10,000,000 principal amount of securities authorized by the Commission to be applied to the purpose of *paying costs incurred to effectuate the transaction*, prorated by the percentage of the Company's property situated in Illinois. 100% of the Company's total property is situated in the State of Illinois.

The resulting required fee of \$20,000.00 is to be paid no later than 30 days after service of the Commission Order authorizing the issuance of the Notes. The fee was calculated as follows:

$$\$10,000,000 \times 100\% = \$10,000,000 \text{ (debt portion for property in Illinois)}$$

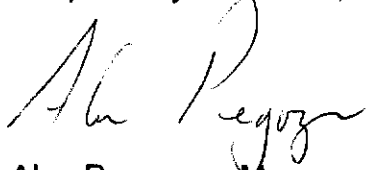
$$\$10,000,000 \times (\$0.20/\$100) = \$20,000 \text{ (fee to the Commission)}$$

13. The Company's proposal is also subject to 83 Illinois Administrative Code Part 240, which requires petitioner to file reports relating to the issuance and sale of the Bonds, Exchange Bonds and application of the proceeds, unless the Commission Order provides otherwise (Section 240.30).
14. The Company's Informational Statement and response to Staff inquiries indicate that the Bonds will have interest rates of 11.5%, a term of 8 years, a 2.52% issuance discount from the principal amount, and a 12% yield when the issuance discount is included. Staff is concerned that Illinois Power's affiliation with Dynegy has increased the effective interest rate of the Bonds above that which IP would have paid for those Bonds absent that affiliation. If, in a rate order, the Commission determines that IP's affiliation with Dynegy or some other nonutility or unregulated company did increase the cost of the Bonds, Section 9-230 of the Act would prohibit the Commission from reflecting that increased cost in rates. Nevertheless, the Commission need not approve the terms of the Bonds in order to approve the proposed issuance. As stated in paragraph 2, the Commission need only approve the amount and purposes of the proposed issuance and determine that such applications are reasonably required. Consequently, Staff recommends that the Commission's Order in this proceeding explicitly state that approval of the proposed issuance does not constitute a finding that the cost of the Bonds and Exchange Bonds is reasonable for the purpose of setting rates. Staff recommends reserving determination of the reasonableness of the cost of

the Bonds and Exchange Bonds for IP's next rate case, should the Bonds remain outstanding.

WHEREFORE, the Staff of the Illinois Commerce Commission recommends that the Commission enter an Order authorizing the transactions described in IP's Informational Statement pursuant to (i) Section 6-102(a) of the Act with regard to \$150,000,000 in Bonds issued on December 20, 2002 and (ii) Section 6-102(d) of the Act with regard to \$50,000,000 in Bonds and \$250,000,000 in Exchange Bonds that have not been issued. Staff further recommends that the Commission order IP to pay a \$20,000 fee pursuant to Section 6-108 of the Act and file reports relating to the issuance of the Bonds approved in this Order pursuant to 83 Ill. Adm. Code 240.

Respectfully submitted,

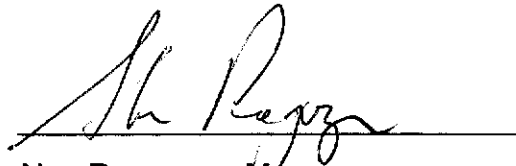
A handwritten signature in cursive script, appearing to read "Alan Pregozen".

Alan Pregozen, Manager  
Finance Department  
Illinois Commerce Commission  
527 East Capitol Avenue  
Springfield, IL 62701  
(217) 785-5418

December 31, 2002

## CERTIFICATE OF SERVICE

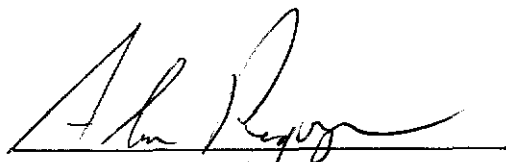
I, Alan Pregozen, Manager of the Finance Department, Financial Analysis Division, Illinois Commerce Commission, do hereby certify that on the 26th day of December, 2002, the Finance Department has delivered for filing with the Clerk of the Illinois Commerce Commission, the original and two copies of the attached Answer to Illinois Power Company's Amended Informational Statement in Docket No. 02-0851, a copy of which is also hereby served upon the service list.

A handwritten signature in cursive script, appearing to read "Alan Pregozen", is written over a horizontal line.

Alan Pregozen, Manager  
Finance Department

## VERIFICATION

I, Alan Pregozen, first being duly sworn upon oath, depose and say that I am Manager of the Finance Department for the Staff of the Illinois Commerce Commission, that I have read the above and foregoing Answer to Illinois Power Company's Informational Statement in Docket No. 02-0851 by me subscribed and know the contents thereof; that said contents are true in substance and in fact, except as to those matters stated upon information and belief, and as to those, I believe the same to be true.

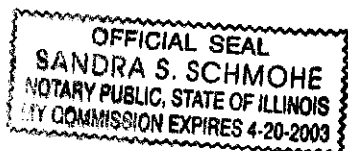


Alan Pregozen, Manager  
Finance Department

Subscribed and sworn to before me  
this 31<sup>st</sup> day of December, 2002.



Notary Public, Illinois





SERVICE LIST  
ILLINOIS POWER COMPANY  
DOCKET NO. 02-0851

Joseph L. Lakshmanan  
Illinois Power Company  
500 S. 27<sup>th</sup> Street  
Decatur, IL 62521-2200

Alan Pregozen  
Case Manager  
Illinois Commerce Commission  
527 E. Capitol Avenue  
Springfield, IL 62701

John Albers  
Administrative Law Judge  
Illinois Commerce Commission  
527 E. Capitol Avenue  
Springfield, IL 62701